CREATe Compliance
An ETHISPHERE Business

Guidelines for a Corporate Anti-Corruption Risk Assessment

Why Risk Assessment is Important

To be effective, a company's anti-corruption program, including policies, procedures and controls, must be informed by the actual corruption risks it faces. A thoughtful, comprehensive risk assessment allows you to evaluate and prioritize risks so your company can focus its anti-corruption compliance efforts. Not only are risk-based controls more effective, but they are more efficient in the use of resources.

A company should assess corruption risk on a regular, ongoing basis and certainly before entering a new market, undertaking a new transaction or establishing a relationship with a new third party. Depending on the size, complexity, and structure of your company, the risk assessment can be company-wide or it may be performed on one or more selected business units or in a particular geography. It can also be stand-alone or part of an overall risk assessment process.

As corruption risks vary by industry, market, and transaction, among other factors, each company's risk assessment, is by definition unique. There is no one size fits all approach. Whatever method is used, risks should be regularly monitored and reassessed

Below are basic guidelines to help you conduct an initial, comprehensive risk assessment for your company.

Key Considerations for Conducting a Comprehensive Risk Assessment

Those managing anti-corruption compliance [and other strategic risks, if you have an enterprise risk management process] in your company should come together to evaluate corruption risks. Assessments will be enhanced by taking a cross-functional approach that ensures all relevant risks are considered. Many companies characterize risks by level such as low, medium or high, which can help will allocation of compliance resources where they are needed most. Technology, too, can be an important tool for risk assessment, especially if your company operated in multiple markets and has many third parties. The criteria used below can be incorporated into a software program that aggregates and mines data to identify corruption risks.

We have organized risks in a number of categories below, but as you will see, the categories are related and often overlap.

Conducting a Risk Assessment

1. **Geographic Risks**: Assess the risks for each country in which your company operates, including:
   - The perception of corruption, using information available from:
     - Sources such as Transparency International.
     - Locally-based resources, including company employees, local partners, embassies.
     - External consultants, such as investigators, lawyers, and accountants.
   - The level of anti-corruption activities by the local government and the country's perceived willingness or unwillingness to tolerate corruption considering:
     - The implementation of effective anti-corruption laws and procurement regulations.

    - Enforcement activity, including the imposition of significant penalties.
- The level of government involvement in the business sector both as a direct participant (for example, through state-owned enterprises or government investment), or as a regulator (for example, via required approvals, permitting or licensing, taxation systems or other regulatory oversight).
    - Opportunities for corruption can increase with increasing bureaucratic complexity or with a greater degree of governmental involvement in business transactions.
- Government infrastructure, such as the rule of law, the role of law enforcement or other security forces, and the judicial system, as well as the economic infrastructure, such as banking, telecommunication, and transport systems.
    - Risk of corruption can increase where basic infrastructure is lacking: financial systems with a higher level of cash transactions inherently present more risk.

2. **Industry or Sector Risks:** Assess the potential corruption risks specific to your industry, including:
    - Whether your industry is subject to a higher degree of regulatory scrutiny (For example, is your industry subject to significant permitting and licensing requirements?)
    - The prevalence of government investigation of and oversight into your industry.
    - Whether government agencies or state-owned enterprises make up a significant component of your industry's customer base.
    - The historical pattern of corruption in your industry.

3. **Business or Organizational Risks:**
    - Assess whether there are external factors specific to your business operations that may make your operations more risky. These might include:
        - Significant revenue from foreign governments.
        - Regular interaction with government officials, including customs, immigration, and border control.
        - Operations that depend on government contracts or critical licenses.
        - Long-term operations such as joint ventures with government entities, including state-owned or state-controlled entities.
    - Assess your company's external profile, such as whether your organization is one of the largest in its sector and whether you receive significant media coverage.
    - Assess the potential effect of historic events on your company's risk profile, such as whether you have been involved in previous investigations or enforcement actions.
    - Consider whether your internal operating structure may create risk. For example, more decentralized companies may present higher corruption risk.
    - Consider whether your existing policies, procedures and controls are adequate to address assessed risk. Factors to consider include whether:
        - Does senior management send a clear anti-corruption message
        - Do you have an appropriate compliance team in place
        - Are your anti-corruption policies and procedures adequately addressing assessed risk
        - Do you provide necessary guidance to your employees and, as appropriate, third parties
        - Are policies and procedures translated into all relevant languages
        - Are your financial controls adequate to detect corruption (which has no materiality requirement)
        - Is your training adequate
        - Are your monitoring and corrective actions systems adequate

4. **Transaction Risks:** Consider the specific risks that may exist for particular transactions and the prevalence of transactions which may present medium or high risks. These will include evaluating the factors above, but also considering additional factors such as whether the particular transaction:
   - Involves charitable or political contributions
   - Requires inspection licenses or permits
   - Involves a public procurement project
   - Includes the use of intermediaries or agents
   - Evidences gifts, travel or entertainment provided to third parties

5. **Third-Party Risks:** Consider the specific risks posed by different types of business partners, including each of the above factors and:
   - The extent to which you use third parties to outsource sales or other core company functions
   - The extent to which you operate in joint ventures
   - The extent to which your third parties interact with government officials
   - Where your third party is located
   - Company/senior executive/key employee connections to or with government officials
   - How the third party will be compensated, including:
     - Whether payment is based solely on performance
     - Whether payment deviates from typical industry or market terms and/or your company's standard practice
   - How third parties are selected, including:
     - Whether the third party was recommended by an employee or customer
     - Whether the third party was recommended or required by a government official